Wednesday April 21, 2004

Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 4/20): 42,195 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

- Weekly Range at Mid-C: $39.5- 42.3 per MWh, Ave. = $41.7
- Approximate change from previous week $+1.5 per MWh
- "Normal" price range, before 5/00 $20-$40 per MWh
- Petroleum, West Texas Intermediate: $37.60 per barrel (year ago: $37.75)
- Seattle gasoline price (4/20) $1.996 per gallon (year ago $1.84),
- Natural gas, Sumas Hub: $4.94 per million British Thermal Units (year ago $4.48)
- Approximate change from last week. Oil: +1.11 $ per barrel; Nat. gas: -0.07 $ per MMBtu

3. California Electricity Situation

- <u>CA ISO Alert Status</u>
    - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
    - 20 minute outage in So. Calif. on March 8, 2004 due to operator error.
    - A stage 1 alert (7% reserve margin) was declared on May 28, 2003.
    - Most recent rotating blackouts: Tuesday, May 8, 2001
- Energy News Headlines from around the Nation
    - California's power supply limited, report says (Press-Enterprise, Apr. 15)
    - BPA's buyouts meet agency goal, but at a huge cost (Oregonian Apr. 11)
    - California to set auto emission regulations (Seattle PI, Apr. 20)

4. River and Snowpack Information (Updated: Apr. 6, 2004)

- Observed February stream flow at The Dalles: 81.8% of average,
- Observed March precipitation above The Dalles: 69% of average,
- Observed snow pack, early March: 91% of average,
- Estimated Jan.-July runoff at The Dalles: 83.6 MAF, 78% of normal,
- Federal hydropower generation in March: 7,111 aMW, 1995-2002 average: 9,624 aMW.

5. Energy Conservation Achievement (Updated: Feb. 11, 2004)

- **State Agencies:** From Oct thru Dec 2003 electrical usage was 9 % less and natural gas usage was 21.3% less compared to the same period in 2000.

6. Power Exchanged: (Updated: Apr. 20, 2004)

- Average flow of power during the last 30 days
    - California (exported to) 1,796 MW
    - Canada (exported to) 1,089 MW
    - Net power export: 2,885 MW

California's Power Supply Limited, Report Says

Press-Enterprise, Apr. 15

Californians are likely to avoid rolling blackouts this summer. But the buffer of energy reserves preventing a repeat of the summer of 2001 is growing slim. The economy is picking up steam, and old power plants are shutting down faster than new plants are being built.

Those are some of the conclusions reached by the Independent System Operator, the agency responsible for planning and operating a reliable electric system for the state.

"We don't have a forecast that there will be blackouts," Jim Detmers, the ISO's vice president of grid operations, said by phone Thursday. "We are cautiously optimistic we will be able to meet peak demand."

Among the unknowns, Detmers said, is whether a long hot spell throughout the West could limit imports of electricity from surrounding states.

A widely circulated draft of the ISO's annual summer report that will be issued today in final form raises some concerns about the summer ahead but far more worries about a trend that could create a statewide shortage by 2006.

The report forecasts that California's demand for electricity will reach a record high this summer and peak at a level 3.5 percent higher than last summer.

The rise in electricity consumption is attributed to growth of the California Gross Product, an increase in exports, decreased conservation and increases in employment and housing construction.

Also, the draft report said 873 fewer megawatts of electricity generation capacity will be available during peak demand this summer than last because of mothballed facilities and a downturn in generation development. It faults the limited capabilities of California's transmission system to import power from other states or to transport electricity from existing power plants to where it is needed.

The ISO said in the draft report that as much as 480 to 1,500 megawatts of power capable of being produced by Southern California power plants will not be able to reach consumers because of transmission congestion.

Gary Ackerman, executive director of the Western Power Trading Forum, representing buyers and sellers of power, is less optimistic than the ISO about what the summer holds.

"The roll of the dice is now the weather," Ackerman said. "I think we are going to have to be prepared for stage alerts by the ISO and possibly limited rolling brownouts or even blackouts."

Severin Borenstein, director of the University of California Energy Institute, said by phone that the ISO prefers to have a power capacity reserve that is at least 7 percent above the highest projected demand. Instead, this summer the reserve is 5 percent to 6 percent, he said.

Borenstein said it is also "a little disquieting" that an early snowmelt in the Northwest could reduce hydroelectric production on which California relies.

Carl Wood, a Riverside resident and member of the Public Utilities Commission, said by phone that the difficulty of getting plants constructed to meet future demand illustrates that California is now caught in a dysfunctional limbo between deregulation and regulation.

Wood said that once more, the utilities have been made legally responsible for having enough capacity to serve their customers.

But he said utilities seeking to fulfill that obligation "are still dependent to a considerable degree upon resources that are in the marketplace that aren't owned or controlled by the utilities."

Before deregulation, he said, Southern California Edison and other investor-owned utilities would continue operating old and inefficient generators in order to have a back-up power supply available during peak demand periods. By contrast, he said, independent power producers have no incentive to keep a money- losing plant in operation.

Ackerman and Peter Cartwright, president and chief executive of Calpine, a San Jose-based power-plant owner and operator, said private companies are prevented from building large power plants unless they can get long-term contracts from utilities that will satisfy lenders.

Bonneville Power Agency's Buyouts Meet Energy Goal, but at a Huge Cost

The Oregonian, Portland, Ore. - April 11, 2004

Michael Lynch, an ambitious Chicago industrialist, arrived in this gritty river town in February 2001, the new owner of the aluminum smelter that for 60 years had been a mainstay of the Cowlitz County, Wash., economy.

Lynch immediately closed the plant, throwing more than 900 employees out of work. His company filed for bankruptcy two years later, and creditors who accused him of dishonesty and incompetence ousted him from control of the company last July.

Lynch's foray into Pacific Northwest aluminum was made possible by the Portland-based Bonneville Power Administration. For shutting his company down and letting Bonneville sell the energy it would have used, his company received $226 million from the resulting sales.

The region's four other aluminum companies cut similar deals with Bonneville, a Portland-based federal power marketing agency, during the power crisis of 2000-2001. By the time the money stopped flowing last October, the aluminum makers' total take had reached more than $1.8 billion.

The program accomplished Bonneville's primary goal -- reducing regional energy use by more than 15 percent at a time of drought and power shortages. But, the payments came at a time when the BPA faced its own financial crisis and raised its rates by 45 percent, resulting in painful, double-digit rate increases for many Northwest households and businesses. And the deals ultimately played out in some unexpected ways.

The electricity buyback program was plagued by these problems:

While the BPA said at the time that the payments were intended to ensure the stability of the aluminum plants, eight of the Northwest's 10 smelters remain closed, three of the five companies are bankrupt and thousands of jobs appear to be permanently eliminated.

Not a single aluminum company has yet used the millions of dollars it received to build or find alternative power sources that would end its reliance on Bonneville, another key justification for the BPA payments.

Kaiser Aluminum and Chemical, which operated the smelter in Mead, Wash., ignored BPA pleas that it share a portion of the proceeds of the energy payments with workers and pocketed the entire $467.3 million it received. The company went bankrupt in 2002.

Six months after he bought the Longview smelter and began receiving the BPA bounty, Lynch's empire of aluminum factories also crashed into bankruptcy amid charges of fraudulent accounting. A bankruptcy trustee said he is investigating charges Lynch improperly used millions of the dollars of BPA proceeds.

The story of how those payments came together illustrates the complex demands on Bonneville, which markets power generated by federally owned dams in the Northwest, to equitably distribute the region's electricity. It also shows the political clout a handful of aluminum companies have enjoyed with the agency.

BPA officials say the deals with the aluminum companies reduced power demand by 15 percent or more at a time the region faced a critical shortage. Paying the companies to shut down saved the BPA hundreds of millions of dollars, because it otherwise would have had to buy expensive electricity on the open market and sell it to the aluminum companies at a tenth of the cost, officials say. Plus, at BPA insistence, a good deal of the money went to workers displaced by the smelter shutdowns.

"I don't regret any of the decisions," said Steven Wright, BPA chief executive. "This power crisis was unprecedented and unanticipated. I think we did a good job under the circumstances."

Other industry sources say the program was abused. "Some of the companies got greedy, they took advantage of the situation," said Randy Hardy, a former BPA administrator.

The windfall payments have their roots in the sweeping deregulation of the power industry of the mid-1990s. Deregulation brought alternative sources of wholesale power to the market that by 1995 were cheaper than Bonneville's.

Alarmed that it could lose aluminum companies as customers, the BPA agreed to write new, more beneficial contracts for the 1996-2001 time period. Among other things, those contracts, which drew lawsuits from some Bonneville customers, gave the companies the unprecedented option to shut down and resell their electricity.

The concessions seemed relatively innocuous until the power crisis of 2000-2001. Without warning in May 2000, wholesale power prices soared from $25 per megawatt-hour to more than $250 per megawatt-hour.

The crisis contributed to the Northwest's descent into a stubborn recession.

Most electricity users suffered big rate increases. Bonneville, which reports to the Department of Energy, raised rates to public utilities it serves by 45 percent in October 2001. But the region's five electricity-gobbling aluminum companies reaped eye-popping nine-figure paydays, in most cases $350 million or more. Longview Aluminum received the smallest allotment -- $226 million.

Bonneville officials knew the arrangement with the aluminum companies could pose a political problem, Wright said. The shutdowns would put thousands of aluminum company employees out of work. Plus, the specter of private companies enjoying fat paydays while most other Northwest power users suffered could prove unpopular.

So the agency put several conditions on the money.

Bonneville inserted language into its contracts with most of the aluminum companies listing the acceptable uses of the money. The agency expected the companies to assist workers displaced by the shutdowns and to pay local taxes and any penalties for canceling raw supply contracts.

And, perhaps most important, the companies were to use the money to build their own power plants or otherwise secure alternative energy contracts that would end their reliance on the agency.

Brett Wilcox, founder and CEO of Golden Northwest, was the first to reach agreement with Bonneville in December 2000. Agency officials hoped to make the deal a model for the rest of the companies.

As the sole Northwest-based aluminum company owner, Wilcox was more attuned to the politics inside Bonneville. He volunteered to send about $98.4 million of the $421 million his company received back to the agency, though he was not contractually bound to do so. He also spent another $106.1 million to pay workers and suppliers and meet other shutdown costs.

Wilcox says he used another $175 million to build a complex of windmills in Sherman County and to develop two gas-fired plants in Goldendale, Wash., and Clatskanie. He's since sold off the wind farm and his efforts to get the new gas-fired plants built have been hamstrung by the company's deteriorating financial position.

Wilcox took Golden into Chapter 11 bankruptcy in December, 2003. He says he still intends to get the Clatskanie power plant built and also to eventually restart the company's smelters in The Dalles and Goldendale.

Alcoa and Columbia Falls also sent a good deal of the money they received to their workers, though how much is unclear. Alcoa is still paying about 390 workers of its idled Wenatchee, Wash., smelter, though that money is coming not from its $350 million in Bonneville proceeds but from $62 million Alcoa is getting in power sales arranged by the Chelan Public Utility District in Washington.

Alcoa and Glencore, Columbia Falls' parent company, refused to account for how they spent the Bonneville money. Bonneville also declined to divulge details of the two companies' expenditures.

The deals with Kaiser and Longview, both of which like Golden have since sought bankruptcy protection, have proved the most controversial.

Kaiser refused to comply with almost all of Bonneville's conditions. It ruled out a power plant as a financial loser and also was the only recipient of the power money that declined to share any of the $467.3 million it received in energy proceeds with its workers.

Bonneville officials were livid. "BPA is disappointed that Kaiser appears more interested in retaining windfall profits at the expense of Northwest ratepayers rather than negotiate a mutually beneficial agreement," the agency stated in a Jan. 31, 2001, internal memo.

The United Steel Workers of America, which represented most of the 1,100 Kaiser employees at Mead, demanded that Bonneville audit Kaiser's use of the money.

Kaiser wouldn't budge.

Company spokesman Scott Lamb said Kaiser complied with the terms of its workers' union contract, supplementing its displaced workers' unemployment checks for two years so that they received compensation equal to 70 percent of their salaries. "We continued to pay Northwest smelter folks according to the contract," Lamb said.

Kaiser says it spent the bulk of the power money on various capital expenditures, including the rebuilding of its Gramercy alumina refining plant in Louisiana, which had been damaged in an explosion.

On Feb. 12, 2002, less than a year after enjoying its enormous payday, Kaiser filed for Chapter 11 bankruptcy. It announced this month that it will sell its Mead smelter, near Spokane, for $7.4 million, less than 2 percent of what it got in power payments.

At first, Lynch played good cop to Kaiser's bad cop.

The former Chicago real estate broker-turned aluminum magnate promised to comply with any and all of Bonneville's requirements, vowing to, among other things, end the smelter's reliance on BPA electricity by 2006.

Bonneville eagerly introduced Lynch at a March 1, 2001, news conference. Wright said ratepayers, smelter employees, even Columbia River salmon would benefit from the Longview shutdown.

The biggest winner was Lynch.

BPA insiders and Randy Hardy, the former BPA administrator who consulted for Lynch, say he could not have bought the smelter without the Bonneville payments. He used between $140 million and $150 million of the energy sale proceeds to repay a lender who provided the initial cash for his smelter purchase. He also sent about $32 million to the plant's more than 900 displaced workers, leaving him at least $44 million.

Lynch says that money went toward expenses such as professional fees, plant maintenance and an unsuccessful attempt to build a power plant.

Lynch pledged to employees and their union that he would restart the facility by April 2002. He told Bonneville he had hired a subsidiary of Enron to launch development of the power plant.

Lynch didn't have much time to savor his new ownership of the Longview smelter.

In August 2001, unpaid creditors forced another of Lynch's aluminum companies in Scottsboro, Ala., into bankruptcy. Days later, Lynch took another company, McCook Metals, into bankruptcy after the company was accused by its lead lender of accounting fraud.

Dominic Forte, a former partner of Lynch's, sued him in August 2002, alleging Lynch had stripped the assets of Longview for his personal gain.

In March 2003, Longview Aluminum became the third Lynch company to go bankrupt. The company reported total assets of $3.08 million against debts of more than $65 million.

Creditors were aghast. They wondered publicly how Longview, which had never operated a day under Lynch's tenure, could have blown through the more than $30 million in energy proceeds they reckoned the company had remaining from the initial $226 million after payments to his lenders and workers.

"The fact that the debtor has disposed of more than $32 million in the two-year period from the date of Longview's purchase . . . is not only disturbing, but also unfathomable," wrote Lawrence Landgraff, an attorney for the Pension Benefit Guaranty Corp.

The Steel Workers sued Lynch and Longview and asked Bonneville once again to audit Lynch's use of the power money. U.S. Bankruptcy Judge Eugene Wedoff ousted Lynch in July 2003, and appointed a trustee to take control of the estate. Wedoff had earlier done the same in the McCook bankruptcy.

William Brandt, a Chicago lawyer appointed as Longview's bankruptcy trustee, said he intends to review Lynch's use of about $20 million of the Bonneville proceeds.

Among other things, Brandt is tracking between $7 million and $9 million Longview sent to a phalanx of lawyers, accountants, public relations firms and engineers during Lynch's short tenure. Brandt said it's unclear whether the professionals' work benefited Longview or Lynch personally or another Lynch company.

Lynch admits he spent $7 million or more on professionals. But the expenditures were appropriate and proper, he said. To preserve Longview, he argues, he also had to try to save McCook. Some of the money also went to lawyers pursuing Lynch's claims against Alcoa, which he claims conspired with his former law firm and others to put him out of business.

"I want to be known as a straight-up, ethical businessman," Lynch said. "I've talked to Brandt, I've told him "bring it on, file a lawsuit." I'm willing to talk in front of a congressional committee or a federal judge."

BPA officials were unfamiliar with the claims against Lynch. They said their reviews of Longview's use of the money, as well as Kaiser's, were "truncated" by the company's bankruptcies.

In any case, Bonneville had limited recourse under the contracts. The agreements gave Bonneville the right to withhold electricity if the companies refused to comply with the agency's terms. But that proved an empty threat to Kaiser and Longview, which have said they will never again operate their smelters.

Steve Oliver, a BPA vice president, said it remains unclear whether Kaiser and Longview complied with the terms of their power agreements. The agency has determined that Alcoa, Columbia Falls and Golden Northwest have spent their share of the power jackpot appropriately, he said.

Oliver said the BPA deserves credit for trying to restrict the companies use of the money. "We really pushed our legal and contractual rights to the limit to create these benefits for ratepayers, employees and to keep these companies viable in the region," he said.

Still, BPA spokesman Ed Mosey acknowledged that the program bore some undesired results. "You had a guy like Lynch who lined his pockets largely due to serendipity."

Today, Bonneville is waiting in line with the three bankrupt aluminum companies' other creditors in hopes of collecting nearly $140 million the agency claims it is owed.

Calif. to set auto emission regulations

By DON THOMPSON, Seattle PI, Apr. 20.

Automakers have the technology to meet strong global warming pollution standards, and existing technology could be used to significantly reduce emissions, according to a nonprofit group of citizens and scientists.

The report by the Union of Concerned Scientists was released a day before the California Air Resources Board was scheduled to hold its first meeting Tuesday on regulations to trim vehicle emissions, as required by a 2002 law. A draft regulation is expected next month.

The group said a new fleet using technology available in some vehicles could reduce global warming pollution about 20 percent while saving state drivers more than $2 billion.

The report envisions a new fleet combining the best technology from existing automobiles: Honda's variable valve lift and timing advances; continuously variable transmissions from the Saturn Ion, Nissan Murano, and the Mini Cooper; and cylinder deactivation now available through DaimlerChrysler and General Motors.

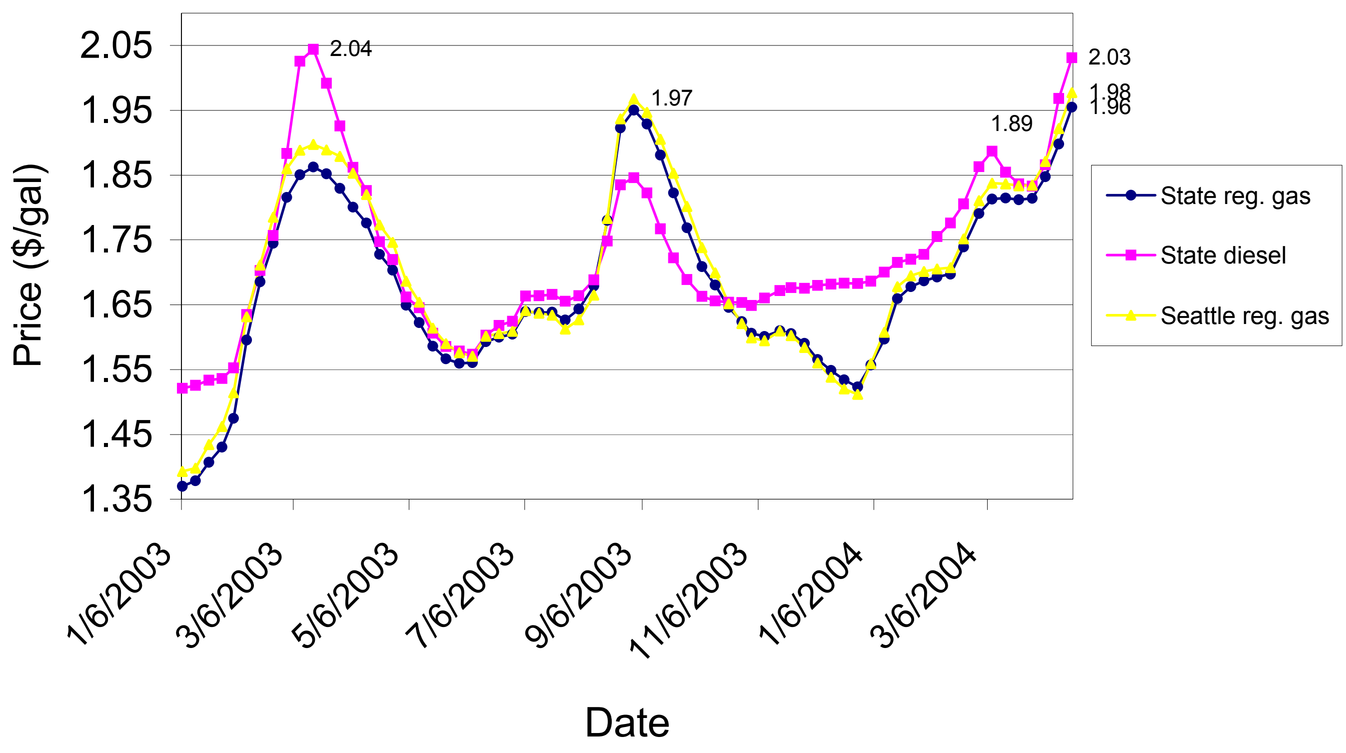
"Automakers have the technology now to meet strong global warming pollution standards, just as they have met past standards for other air pollutants or safety," the group said.

A spokesman for the Alliance of Automobile Manufacturers, Charles Territo, said that the standards should be set nationally and consumers have largely rejected the technology the auto industry has spent billions of dollars to invent.

Less than 2 percent of sales are vehicles that get more than 30 miles per gallon, he said, while 52 percent of California sales last year were higher polluting light trucks.

Gasoline and diesel prices are now equal to record levels reached last spring and summer.

Fig. 1: WA State Gasoline and Diesel Prices: Jan. 03 - Apr. 04



Visit the CTED Energy Policy Website to view the new publication: Gasoline Fuel Price Primer.

http://www.cted.wa.gov/DesktopDefault.aspx?TabId=440